

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 FEA-01 NSC-05 ERDA-05 AID-05

CEA-01 CIAE-00 COME-00 DODE-00 FPC-01 H-01 INR-07

INT-05 L-03 NSAE-00 OMB-01 PM-05 USIA-06 OES-07

SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01

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P 300009Z JUL 77

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 4298

INFO AMCONSUL MONTREAL

ALL OTHER AMCONSULS IN CANADA (POUCH)

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 06889

PASS WHITE HOUSE/SCHLESINGER AND FEA

E.O. 11652: GDS

TAGS: ENRG, CA

SUBJECT: NORTHERN TIER OIL SUPPLY: CANADA LIMITS OPTIONS
TO TIME SWAPS

REF: STATE 175373

1. SUMMARY: U.S.-CANADIAN DISCUSSION OF NORTHERN TIER
REFINERY SUPPLY PROBLEMS EXTENDING OVER THREE YEARS ENDED
IN OTTAWA JULY 29 WITH A WHIMPER -- NOT A BANG. GOC TOLD
USDEL THAT ONLY POSSIBLE WAY TO COVER PROJECTED 50,000
B/D SHORTFALL IN MONTANA AND EASTERN WASHINGTON WAS BY
MEANS OF COMMERCIALY ARRANGED TIME-SWAPS SUPERVISED BY
BOTH GOVERNMENTS. CANADIANS REJECTED OFF-SHORE EXCHANGES
AT MONTREAL BECAUSE RESULTING BACK-OUT OF FLOW THROUGH
SARNIA-MONTREAL PIPELINE IS POLITICALLY UNACCEPTABLE. GOC
REPS RULED OUT EXCHANGES AT VANCOUVER BECAUSE ENVIRONMENTAL
HAZARD OF INCREASED TANKER TRAFFIC IN PUGET SOUND IS
EQUALLY UNACCEPTABLE. EXCHANGES BASED ON INCREASED CANADIAN
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PRODUCTION WERE ALSO DEEMED IMPOSSIBLE BY GOC REPS ON
POLITICAL GROUNDS. MEETING CONCLUDED BY SPELLING OUT
TERMS UNDER WHICH GOC WOULD APPROVE TIME SWAPS. ENERGY,
MINES AND RESOURCES (EMR) MINISTER ALASTAIR GILLESPIE WILL
CONFIRM CONCLUSIONS OF MEETING TO FEA ADMINISTRATOR JOHN
O'LEARY SOMETIME DURING WEEK AUGUST 1-7. END SUMMARY.

2. U.S. DELEGATION LEADER MALIN (FEA) FOCUSED USG
APPROACH ON TWO POSSIBLE OPTIONS FOR SUPPLYING CANADIAN-
DEPENDENT NORTHERN TIER REFINERIES:

- A. DIVERSION: REDIRECTING CANADIAN OIL NOW FLOWING TO MONTREAL (VIA SARNIA-MONTREAL PIPELINE) OR TO VANCOUVER (VIA TRANSMOUNTAIN PIPELINE).
- B. INCREASING EXPORTS BY PRODUCING FROM PRESENTLY SHUT-IN CAPACITY. AS INDUCEMENTS FOR CANADA TO INCREASE PRODUCTION, USDEL PROPOSED: A) EXCHANGES OF ALASKAN OIL WITH MARITIME REFINERIES, AND B) TIME SWAP OF CANADIAN OIL NOW FOR U.S. OIL AT MUTUALLY AGREED LATER DATE AND COMMITMENT BY U.S. TO SUPPLY CANADA OUT OF STRATEGIC STORAGE DURING AN EMERGENCY.

3. CANADIAN DELEGATION LEADER, EMR ASSISTANT DEPUTY
MINISTER HUNT, OUTLINED FOLLOWING GOC POSITION IN RESPONSE:

- A. BACKING OIL OUT OF SARNIA-MONTREAL PIPELINE HAD BEEN CAREFULLY CONSIDERED AT MINISTERIAL LEVEL. ALTHOUGH TECHNICALLY AND FINANCAILLY FEASIBLE, CABINET OFFICERS CONSULTED CONSIDER IT POLITICALLY IMPOSSIBLE.
 - B. GOC IS WILLING TO APPROVE INCREASED MID-CONTINENT EXCHANGES OF "SECURE OIL" WITH INCREMENTAL AMOUNT GOING TO CANADA VIA LAKEHEAD PIPELINE SYSTEM.
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- C. BRITISH COLUMBIA GOVERNMENT WOULD OPPOSE, ON ENVIRONMENTAL GROUNDS, ARRANGEMENTS TO EXCHANGE "SECURE OIL" AT VANCOUVER FOR INCREASED SHIPMENTS OF CANADIAN CRUDE TO U.S.

- D. INCREASING CANADIAN PRODUCTION IS POLITICALLY UNACCEPTABLE AND PROBABLY COULD NOT BE APPROVED BY NATIONAL ENERGY BOARD IN ANY CASE, GIVEN LEGAL CONSTRAINTS ON DETERMINATION OF EXPORTABLE SURPLUS.

- E. GOC IS WILLING TO CONSIDER TIME SWAPS, BUT WOULD WANT GOVERNMENT GUARANTEED PERFORMANCE, ESPECIALLY UNDER EMERGENCY CONDITIONS.

- F. CANADIANS LINK PROPOSED WABANEX STRATEGIC OIL STORAGE PROJECT AND OIL SECURITY DURING AN EMERGENCY. GOC WOULD WANT OIL FROM WABANEX -- PROVIDED U.S. AND CANADA AGREE TO TIME SWAPS AND WABANEX GOES AHEAD.

4. CANADIAN POSITION THUS REDUCED AVAILABLE NORTHERN TIER
SUPPLY OPTIONS TO ONE -- TIME SWAPS. GOC WOULD AGREE TO

INCREASING CANADIAN PRODUCTION NOW, IN RETURN FOR U.S. OIL
AT MUTUALLY-ESTABLISHED FUTURE TIME. CANADIANS OUTLINED
FOLLOWING REQUIREMENTS FOR TIME SWAPS:

A. USG WOULD ESTABLISH PRIORITY ALLOCATION SYSTEM FOR
ADDITIONAL EXCHANGES TO ASSURE CRUDE FROM INCREASED
CANADIAN PRODUCTION WOULD GO ONLY TO PRIORITY ONE REFINERS,
AND WOULD SIMILARLY PRIORITIZE PRESENT MID-CONTINENT
EXCHANGES AS THEY CAME UP FOR RENEWAL.

B. ARRANGING SWAPS WOULD BE RESPONSIBILITY OF CANADIAN
PRODUCERS AND U.S. REFINERS WHO, AFTER REACHING COMMERCIAL

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TO SECSTATE WASHDC PRIORITY 4299

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ALL OTHER AMCONSULS IN CANADA (POUCH)

C O N F I D E N T I A L SECTION 02 OF 02 OTTAWA 06889

AGREEMENT, WOULD SEEK CANADIAN (NEB) EXPORT AND U.S. (FEA)
IMPORT AUTHORIZATIONS. REPAYMENT WOULD BEGIN POST-1980.

C. EXCHANGES WOULD CONTINUE ONLY UNTIL THEY THREATENED
TO REDUCE FLOW IN SARNIA-MONTREAL PIPELINE, E.G., TWO
YEARS (1978-79) AT 50,000 B/D. THIS MIGHT POSSIBLY BE
EXTENDED TO THREE YEARS.

D. REVIEW MECHANISM WOULD BE ESTABLISHED TO SURVEY
COMPLIANCE WITH PRIORITY ALLOCATION SYSTEM AND ADEQUACY OF
SUPPLY TO SARNIA-MONTREAL LINE.

5. MEETING CONCLUDED ON FOLLOWING AGREEMENT:

A. TIME SWAPS ARE ONLY AVAILABLE OPTION FOR INCREASING

NORTHERN TIER SUPPLY.

B. FEASIBILITY OF TIME SWAPS IS DEPENDENT UPON THEIR
COMMERCIAL ACCEPTABILITY TO COMPANIES.

C. EMR MINISTER ALASTAIR GILLESPIE WILL CONFIRM CON-
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CLUSIONS OF MEETING TO FEA ADMINISTRATOR JOHN O'LEARY
SOMETIME DURING WEEK AUGUST 1-7. ENDERS

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Disposition Approved on Date:
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